P R E S E N T A T I O N

T O T H E

PARLIAMENTARY TASK FORCE ON PENSION REFORM

BY THE MINISTER OF FINANCE AND TOURISM

GOVERNMENT OF PRINCE EDWARD ISLAND

OCTOBER 17, 1983

CHARLOTTETOWN

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1. INTRODUCTION

The Province of Prince Edward Island has a unique economic and social fabric, so that many issues impact on it in ways quite distinct from the rest of Canada. The many issues surrounding pension reform are no exception.

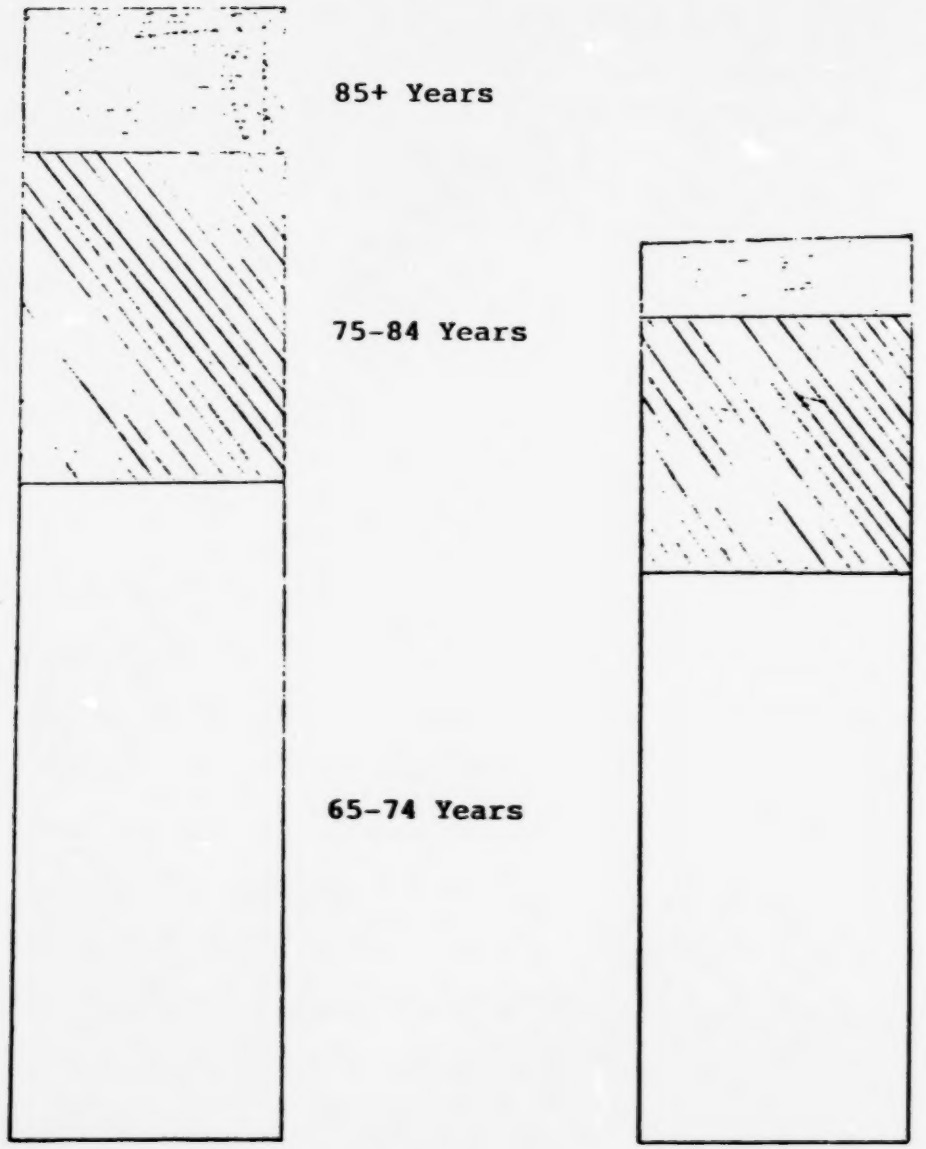
The Government of Canada, in its recent paper, "Better Pensions for Canadians", has discussed two types of changes which might be made to the pension system. The first type effects the circumstances of those presently retired. The second type allows those presently working to better provide for their future. These same two perspectives can be used to describe some of the distinguishing social and economic characteristics of the Island population. An understanding of the degree to which problems exist, and which segments of society are in greatest need is crucial to the solution of an issue as complex as pension reform.

FIGURE 1

DISTRIBUTION OF SENIOR CITIZENS BY AGE GROUP

PRINCE EDWARD ISLAND AND CANADA

1981



PRINCE EDWARD ISLAND

(65+ represent 12.2% of the Island population)

CANADA

(65+ represent 9.7% of the total population)

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The census reveals that 45% of the elderly live in rural areas, 26% live in the smaller towns and villages, and 29% live in either Charlottetown or Summerside. When compared to the total Island population it is apparent that seniors are much more likely to live in Charlottetown and Summerside than other age groups, of which 19% live in the two urban centers. This is probably because many of the public housing units for seniors are located in Charlottetown and Summerside. Furthermore, more elderly women tend to live in the urban areas than elderly men. Frequently women who have been widowed tend to leave the rural areas and move into town to be closer to shopping, services, and other family members.

2.2 Living Arrangements and Housing

A research project completed by the Department of Health & Social Services in 1980[1], and funded by Health and Welfare Canada, revealed that half of the seniors surveyed had been living in their present dwelling for 16 years or more. The elderly are much less mobile than the population in general, for whom the median length of occupancy was 7 years. Most

1 The research project was entitled "Towards Meeting the Needs of Senior Citizens in P.E.I." and is often referred to as the "Aging Study". A total of 660 seniors were intereviewed between December 1979 and March 1980.

of those who had moved within the previous 2 years had moved into senior citizens housing units. The relative infrequency with which the elderly move, means that many are living in older homes and reflects the age of the housing stock in P.E.I. This and other data support the conclusion that many of the Island's elderly own mortgage-free homes. However, it also indicates that maintenance, repair, and other housing expenses can be high. The census reported that 3 out of every 10 dwellings in the province are in need of repairs (as defined by Statistics Canada). The 1980 research indicated that nearly 10% of the seniors often found their homes to be not warm enough in the winter, partially due to poor insulation and high fuel costs.

In 1980, more than 70% of the seniors surveyed in the Aging Study were living in a house, compared to 11% in apartments or duplexes, 7% in nursing homes, and 5% living in senior citizens housing units. Relatively few were actually living alone - about 18%. Almost 70% of the elderly live with a spouse and/or family, which demonstrates a great potential source of assistance for the elderly in their daily lives. These resources are indeed used by the elderly, as the 1980 research reported that the elderly relied on, and often received, a great deal of help from their families. This strength of family relationships and the amount of support provided to the elderly by their families are special characteristics of Prince Edward Island society.

2.3 Health and Transportation

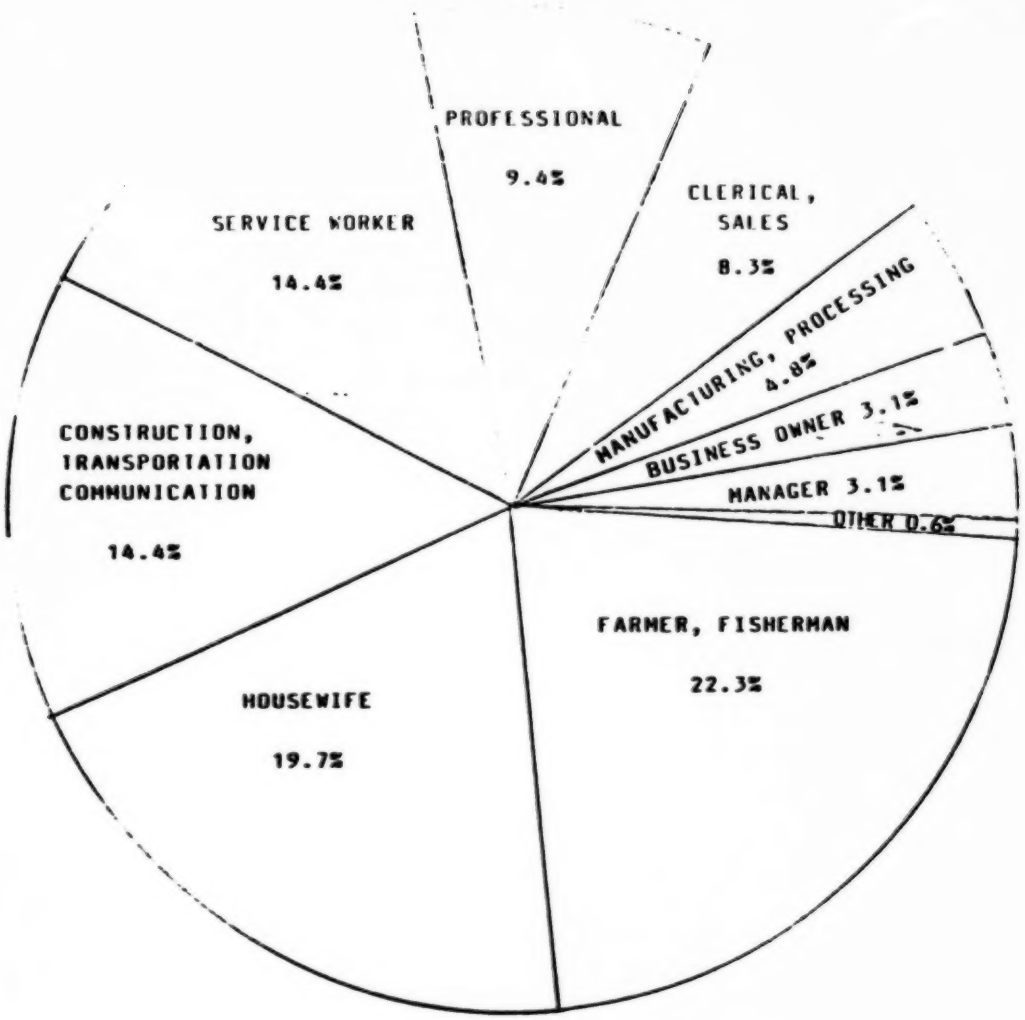
The senior citizens in Prince Edward Island make extensive use of physicians. In 1980, more than 90% of the elderly had seen a doctor in the past year. More than half of the seniors had seen a doctor between one and five times, 18% had seen a doctor six to ten times, and 18% had visited a physician 11 times or more in the previous year. Almost one-quarter of the senior citizens surveyed in 1980 had been hospitalized in the previous year.

One unique feature of this province is the lack of urban public transportation systems. While elderly people in general experience transportation difficulties, this area is of even more concern to the Island elderly. In 1980, some interesting results emerged from the transportation questions in the Aging Study Survey. For example 41% of the seniors reported having a vehicle and being able to drive it. However, almost one-quarter had no vehicle, and nearly one-third had a vehicle but did not drive it. The lack of public transportation implies that these latter two groups must rely on families and taxis for travelling.

2.4 Employment

According to the 1981 Census, 12.4% of the population 65 years of age or older in Prince Edward Island were employed, a higher proportion than the 10.6% reported for Canada. While data on the occupations of the elderly is not yet available from the census, the 1980 Aging Study determined both the occupations of the elderly who were working and the previous occupations of those who were retired. (The classifications of occupations used in the Aging Study differ from the standard classifications). This employment profile is presented in Figure 2. When past and present occupations are combined, it can be seen that the most frequently reported occupations were "farmers or fisherman" (22%), "housewife" (20%), "construction, transportation or communication worker" (14%), and "service worker" (14%). An examination of the occupations within each category shows that large numbers of senior citizens in Prince Edward Island have worked in occupations in which they were likely to be self-employed, casually employed, or unpaid. This suggests that a high proprtion would not have contributed to a pension plan, and none of the older seniors (now 82 years of age and older) would have had the opportunity to contribute to the Canada Pension Plan.

FIGURE 2
PAST & PRESENT
OCCUPATIONS OF PRINCE EDWARD ISLAND'S ELDERLY
AS
REPORTED IN 1980



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2.5 Income

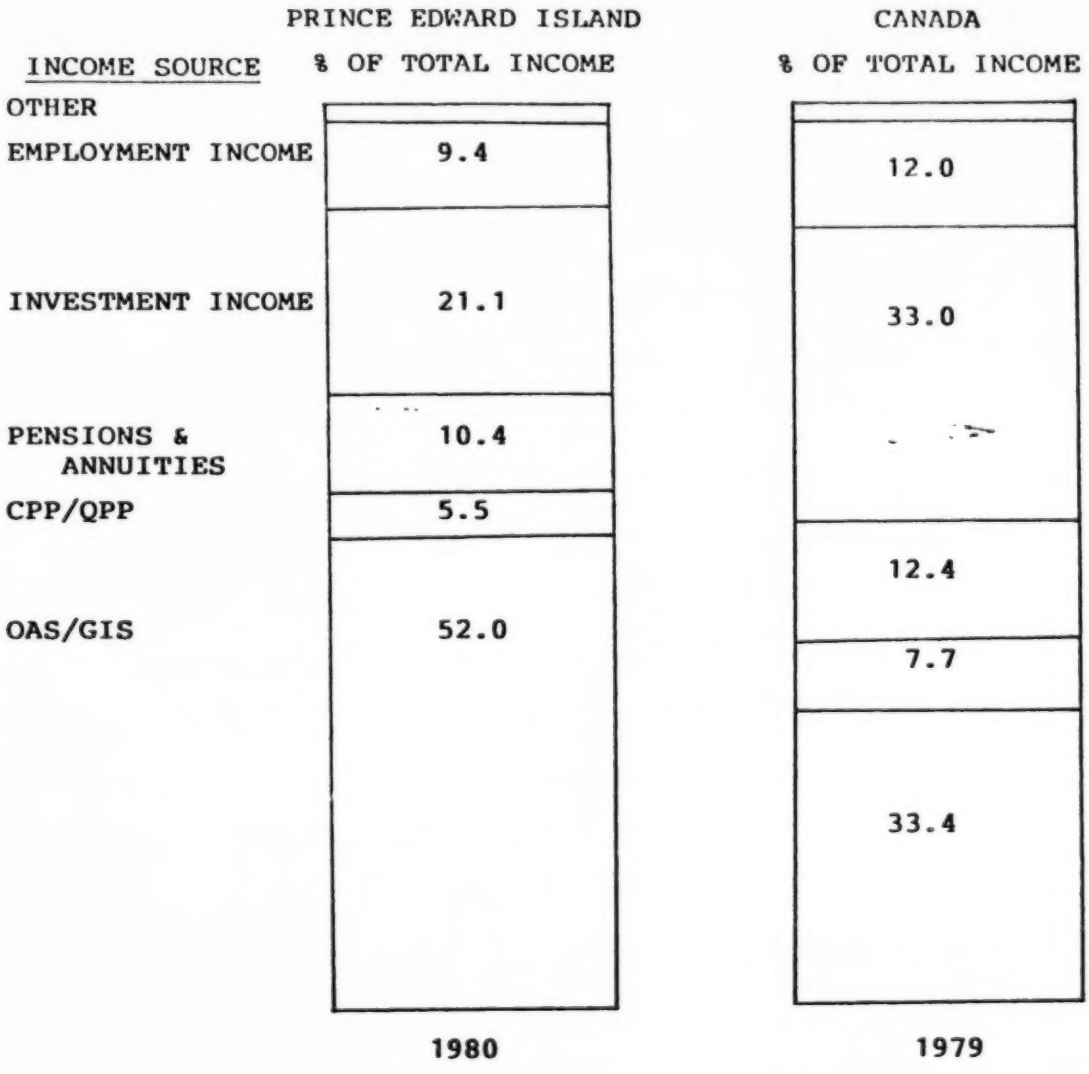
The conclusion that a large proportion of the Island's elderly made limited contributions to CPP and other pensions is substantiated by examining the sources of income of the Island's elderly in 1980, as displayed in Figure 3. Only 5.5% of the total income of the elderly came from the Canada Pension Plan, and 10.4% came from "Other Pensions and Annuities". By far the largest source was Old Age Security and Guaranteed Income Supplement income, which accounted for 52%. Investment income ranked a distant second at 21.1%.

Figure 3 can be compared to the corresponding chart from the document "Better Pensions for Canadians". Although the latter is based on data from 1979, the relative importance of the various sources of income has probably not altered substantially. The contrast between the two charts is striking. The proportion of OAS/GIS payments to the elderly in Canada as a whole is substantially less at 33%. The major offsetting income source is investment income, accounting for a little more than one-fifth of the income of Prince Edward Island's elderly, but one-third of the income on a national basis. Employment income, pensions and annuities, and Canada Pension Plan are each about 2% higher on the national chart than on the provincial one.

FIGURE 3

RELATIVE IMPORTANCE OF VARIOUS SOURCES OF INCOME

TO THE ELDERLY IN PRINCE EDWARD ISLAND AND CANADA



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The importance of OAS and GIS to the elderly of Prince Edward Island is further illustrated by the fact that in 1980, 71% of the people in Prince Edward Island who received OAS also received some GIS payments. One-quarter of the OAS recipients received maximum GIS, while 46% of them were on partial GIS. This in itself is one indication of the relatively low level of other income currently available to the elderly in Prince Edward Island. By comparison, the corresponding data for Canada indicate 16% of OAS recipients received maximum GIS with 38% on partial GIS.

While 98.5% of the elderly in Prince Edward Island received OAS, the number who benefited from retirement benefits from CPP in 1980 was significantly less at 39%. A higher percentage of Islanders received these benefits, compared to 36% for all Canadian elderly, but they received smaller average dollar amounts than the average CPP beneficiary. In order to compare the 1979 income data presented in the green paper with the 1980 data for P.E.I., it has been adjusted for inflation.

The comparison reveals that the average incomes of the elderly in Prince Edward Island were about 80% of the average for Canadian elderly. This is a higher proportion than per capita incomes generally on P.E.I. which measured 75% of the natonal average. This difference in disparities between the

age groups can be seen as the result of several factors. OAS/GIS rates are established on a national basis. With few elderly receiving other pension income, the large majority of seniors in Prince Edward Island receive GIS.

At present approximately 60% of the elderly in Prince Edward Island are without pension income. There will continue to be many in this same category, so that OAS/GIS will always form a major and perhaps the most important source of income for people over 65 in Prince Edward Island.

3. THE ELDERLY OF THE FUTURE

The present economic structure of P.E.I. is such that a large proportion of the population will continue to rely on income support upon retirement. This is due to seasonality, unskilled occupations, part time activity, low incomes, and low participation in private pension plans.

3.1 Labour Force Activity

In 1981, there were 91,000 people in Prince Edward Island aged 15 years and over. The labour force averaged 54,400, the participation rate was 59.1%, and employment averaged 48,000. The average unemployment rate for the year was 11.4%, but this annual average masks the extraordinary seasonality of employment in this province. There are approximately 13,000 people who

flow into and out of the Island's labour force each year. As long as a substantial part of the province's employment is generated through farming, fishing and tourism, these seasonal fluctuations will always exist.

A phenomenon of this decade which will have direct implications for pensions has been the trend toward part-time, temporary and casual employment. Many of these employees would be excluded from private employer-sponsored pension plans in cases where such plans exist. Reduced hours of work will result in lower annual earnings upon which CPP benefits are calculated.

3.2 Occupations

The occupations of the Island's present population 15 years of age and older have changed dramatically compared to those of today's elderly. The proportion involved in farming and fishing declined from 22% to 9.5%. Similarly the number of "construction, transportation, communication" and "service" workers declined from 14% to 8% in each category. The proportion in "clerical and sales" increased from 8% to 13%; "manufacturing and processing" increased from 5% to 7%, and "managers and administrators" rose from 3% to 5%. In the 1981 census, no occupation was given for 38% of the population 15 years of age and over, which would include those not in the work force.

Many people still work in jobs that are seasonal in nature and for employers who do not offer private pension plans. One can predict that a large portion of the Island labour force will not benefit to any great extent from pension reform, due to their short work periods and low wages, and will be dependent on some other source of income security when they retire. In addition, the lower participation rate in Prince Edward Island relative to most provinces by definition means that there is a higher proportion of the population not in the labour force at all.

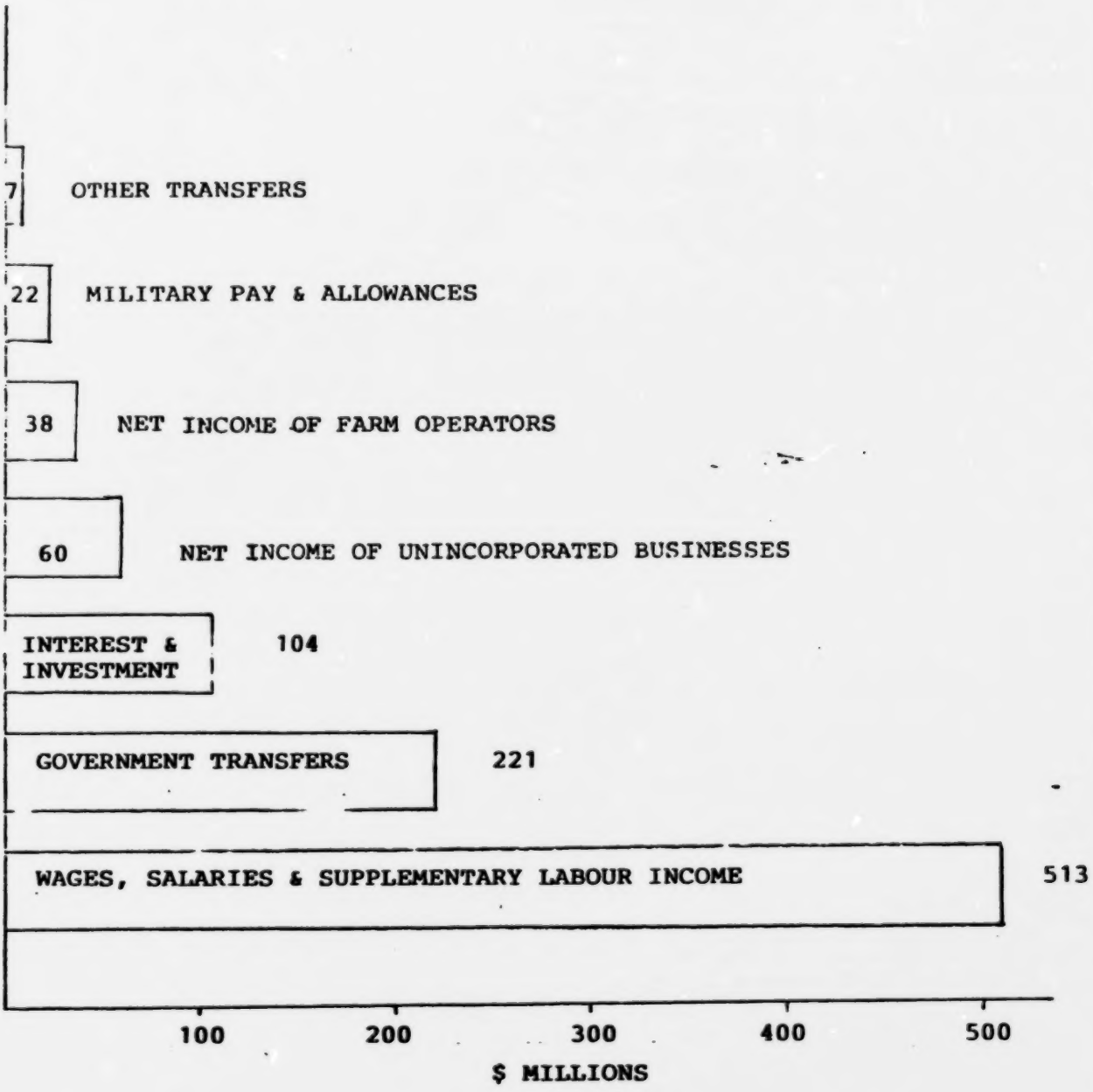
3.3 Income

An examination of personal income of Island residents confirms many of the previous observations. In 1981, the sources of personal income were as shown in Figure 4. While "wages, salaries and supplementary labour income" accounted for 53% of the total personal income in the province, "government transfers" were the second major source and represented 23% of personal income. The significance of this second source becomes more apparent when portrayed as $1,804 for every adult and child in the Province in 1981.

Because of the seasonal nature of local businesses and industries, many people in the labour force draw benefits from

FIGURE 4

PERSONAL INCOME, PRINCE EDWARD ISLAND
1981



unemployment insurance during parts of the year when other job opportunities do not exist on a scale sufficient to keep them employed. In 1981 the number of UI claimants peaked in December at 14,554, and was the lowest in September at 8,478. By 1983, the number of UI claimants reached a record 16,527 on May 6, during the time of the year when employment opportunities are most limited and despite fairly major job creation programs by both the federal and provincial governments. Pension reform alone is unlikely to alter the situation of those Islanders of working age today whose employment patterns provide pension credits of very low value, if any.

4. CURRENT STATUS OF EMPLOYER-SPONSORED PENSION PLANS IN PRINCE EDWARD ISLAND

Another important factor is the present level of participation of the local labour force in employer-sponsored pension plans. As of January 1, 1982, there were 9,600 males and 5,092 females for a total of 14,692 people with membership in private pension plans in Prince Edward Island, representing 30% of the labour force for that month. In July of that year when the labour force increased to 59,000, the proportion would have declined to 25%, given that the employees who represented the seasonal increase would not be likely to participate in employer-sponsored plans. The great majority of the Island labour force is not covered by employer-sponsored pension plans.

Of the total in employer-sponsored pension plans, 9,090 were members of one of the 18 public sector plans which includes 62% of all employer-sponsored plan members. The remaining 5,602 employees were in private sector plans.

Statistics on the number of plans and total members for each industry in Prince Edward Island are displayed in Figure 5. The first observation, not surprisingly, is that there are no private pension plans in the Province's primary industries - farming and fishing. Many of the plans operate in industries which are characterized by seasonality, such as "food and beverages manufacturing", "construction", "trade", and "service". While "public administration and defence" has only 1.9% of the plans, it clearly has the largest number of members, at 36% of the total.

It is important to note that many pension plan members in Prince Edward Island belong to plans that are operated by the Federal Public Service, Armed Forces, RCMP, and the Prince Edward Island Government. A great many other employees that are covered by plans are employed by corporations that have head offices in other jurisdictions, and most are already

FIGURE 5

NUMBER OF PLANS AND MEMBERS BY INDUSTRY

JANUARY 1, 1982

INDUSTRY	PLANS		MEMBERS	
	#	%	#	%
AGRICULTURE				
FORESTRY				
FISHING				
MANUFACTURING				
- FOOD & BEVERAGES	27	10.3	599	4.
- OTHER	41	15.7	998	6.
CONSTRUCTION	14	5.4	1,132	7.
TRANSPORTATION AND COMMUNICATION	19	7.3	1,603	10.
TRADE	55	21.1	728	5.
FINANCE, INSURANCE, REAL ESTATE	48	18.4	698	4.
SERVICE (INCLUDING HOSPITALS AND SCHOOLS)	52	19.9	3,676	25.
PUBLIC ADMINISTRATION AND DEFENSE	5	1.9	5,258	35.
TOTAL	261	100.0	14,692	100.

subject to regulatory legislation in that other jurisdiction. There are relatively few employees in Prince Edward Island who participate in employer-sponsored plans with companies who have head offices in this province.

Prince Edward Island has not enacted legislation to regulate private pension plans and has not in the past been active regarding pensions for several reasons, including:

1. The small number of employed people in the Province who belong to plans other than government plans or multi-provincial private corporation plans;

2. The large number of small organizations and seasonal businesses which can ill afford private plans; and

3. The large number of people employed in seasonal, part-time, temporary and casual jobs who would not benefit to any extent from private plans.

5. THE CANADA PENSION PLAN

Canada has an excellent mandatory, earnings-related, contributory pension plan in the Canada Pension Plan. It was set up jointly by the federal and provincial governments and demonstrates the potential which that cooperation holds today. The CPP has many laudable qualities from Prince Edward Island's

point of view. Its coverage is universal. It is portable. Vesting is immediate. It has some survivors benefits. Costs of administration are low due to its centralized nature. Its legislative and administrative framework is already in place and functioning well. It is uniform in application across Canada. As noted, there are many people in Prince Edward Island with a low, a seasonal, or no attachment to the labour force for whom the CPP does not provide much benefit, but, for those with significant labour force attachment, it is an excellent vehicle for providing for retirement. The Prince Edward Island Government is committed to a strong and viable CPP and feels that it should be allowed to mature and continue as intended by its founders.

However, the CPP as it is now structured has a serious flaw, which has the potential to be fatal to the entire plan. The plan is not adequately funded for the long term. When the CPP was initiated, the contribution rate was set low at 3.6% of earnings, with the understanding that it would have to increase in the future to permit the plan to be self-financing. It has never been a question whether the CPP contribution rate would have to increase, but only by how much and when. It was left to future governments to answer these questions as the plan matured and as more information became available.

The future is now. The latest CPP actuarial report indicated that the long term contribution rate is between 8 and 10 percent. It also estimated that, if the 3.6% rate is not increased by the end of this decade, then the plan will have to draw down the capital of the fund in order to pay benefits which are promised. In that event it would only take thirteen years to completely exhaust the CPP fund and leave the plan effectively bankrupt and unable to pay promised benefits. If those now contributing are ever to receive the pensions they expect, then contributions must begin very soon to increase gradually to the 8-10% range.

Adequate funding is crucial to the continued existence of the CPP. A lack of adequate funding is the greatest threat to the long term viability of the CPP.

6. EXPANDING MANDATORY PENSIONS

At present the CPP is mandatory. Some have suggested that people should be forced to save more for their retirement, that mandatory benefits should be higher, and that additional mandatory pensions should be provided by the private sector.

The Government of Prince Edward Island is presently examining the need for expansion of mandatory pension arrangements.

We have not discovered an objective measure to indicate whether disruptions in living standards are serious enough to require further major intervention by government. At any rate, the final decision regarding expansion of mandatory arrangements must reflect the capacity of the economy to provide and adequately fund benefits. At this time we would not promote an expansion of mandatory arrangements, as the evidence is not clear, either on the need or on the ability to fund. A secure promise of a pension, even if it is low, is much to be preferred over a promise of a larger pension which cannot be delivered when the time comes to claim the promise. A firm commitment to adequate funding of the level of benefits which is presently promised could make it easier to consider an increased level of benefits.

In any future proposals to expand mandatory arrangements, care must be taken not to build up future costs which are not appropriately financed. Of equal importance, it is necessary to be realistic about the level of contributions that small and seasonal private employers can afford.

6. CONCLUSION

In conclusion, there are several statements which can be made on behalf of this Province.

First, Prince Edward Island supports the commitment made by the Government of Canada to increase the OAS/GIS

payments for single individuals as the most practical means of improving the income levels for this group, both now and in the future. As indicated earlier, many Prince Edward Island seniors receive GIS today, and it is likely to be an important source of income in Prince Edward Island in the years ahead.

Second, while expanding the CPP may be an appropriate otpion for improving the pension situation of today's working age population, action must first be taken on issues included in the provincial consensus on Canada Pension Plan financing, forwarded to the federal Minister of Finance in March, 1982. This provincial consensus affirmed that existing CPP benefits must be financed through increases in the contribution rates and that such increases should be implemented over a relatively long period beginning as soon as possible. Pension reform should be gradual, and changes to Canada's pension system should be implemented on the basis of consensus. Prince Edward Island supports this proposal of the provincial Finance Ministers for increasing CPP contribution rates.

Third, it can be argued that the problem of portability is one of the most important areas to be dealt with. If portability is improved many of the other problems outlined in the Green paper are automatically corrected.

POOR

QUALITY

ORIGINAL